

MERCANTILE BANKSHARES CORP
Form 10-Q
October 28, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2005

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 0-5127

MERCANTILE BANKSHARES CORPORATION

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of)

52-0898572
(I.R.S. Employer)

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incorporation or organization)

Identification No.)

2 Hopkins Plaza

Baltimore, Maryland 21201

(Address of principal executive offices) (Zip Code)

(410) 237-5900

(Registrant's telephone number, including area code)

NONE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 20, 2005, 82,082,915 shares of registrant's Common Stock, \$2 par value per share, were outstanding.

MERCANTILE BANKSHARES CORPORATION

Quarterly Report on Form 10-Q

September 30, 2005

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PART I FINANCIAL INFORMATION**Item 1. Financial Statements (Unaudited)****MERCANTILE BANKSHARES CORPORATION****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except per share data)	September 30, 2005	December 31, 2004	September 30, 2004
ASSETS			
Cash and due from banks	\$ 328,964	\$ 244,875	\$ 290,401
Interest-bearing deposits in other banks	200	158	158
Federal funds sold	232,129	101	24,500
Total cash and cash equivalents	561,293	245,134	315,059
Investment securities available-for-sale	3,048,846	2,908,694	2,955,674
Investment securities held-to-maturity fair value of \$17,380 (2005), \$21,094 (December 2004) and \$23,000 (September 2004)	16,804	20,176	21,909
Total investment securities	3,065,650	2,928,870	2,977,583
Loans held-for-sale	42,307	11,000	15,984
Loans:			
Commercial and leasing	2,925,445	2,866,693	2,841,088
Commercial real estate	3,638,238	3,122,701	3,022,463
Construction	1,543,633	1,268,350	1,170,704
Residential real estate	1,778,684	1,677,932	1,692,700
Home equity lines	520,214	495,462	473,089
Consumer	1,039,845	797,295	814,270
Total loans	11,446,059	10,228,433	10,014,314
Less: allowance for loan losses	(157,176)	(149,002)	(161,441)
Loans, net	11,288,883	10,079,431	9,852,873
Bank premises and equipment, less accumulated depreciation of \$147,395 (2005), \$142,384 (December 2004) and \$159,477 (September 2004)	146,615	139,946	140,411
Other real estate owned, net	777	212	388
Goodwill	670,306	507,791	507,791
Other intangible assets, net	47,485	48,226	50,391
Other assets	580,138	465,080	442,539
Total assets	\$ 16,403,454	\$ 14,425,690	\$ 14,303,019
LIABILITIES			
Deposits:			
Noninterest-bearing deposits	\$ 3,329,331	\$ 3,049,031	\$ 3,167,398
Interest-bearing deposits	8,710,575	7,750,168	7,554,685
Total deposits	12,039,906	10,799,199	10,722,083
Short-term borrowings	1,266,672	887,857	923,447
Accrued expenses and other liabilities	165,398	129,996	127,534
Long-term debt	780,087	690,955	642,510
Total liabilities	14,252,063	12,508,007	12,415,574

COMMITMENTS and CONTINGENCIES**SHAREHOLDERS EQUITY**

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Preferred stock, no par value; authorized 2,000,000 shares; issued and outstanding - None

Common stock, \$2 par value; authorized 130,000,000 shares; issued and outstanding - 82,078,721 (2005), 79,300,506 (December 2004) and 79,152,310 (September 2004)

	164,157	158,601	158,305
Capital surplus	669,185	530,705	525,011
Retained earnings	1,343,076	1,231,102	1,198,039
Accumulated other comprehensive (loss) income	(25,027)	(2,725)	6,090
Total shareholders' equity	2,151,391	1,917,683	1,887,445
Total liabilities and shareholders' equity	\$ 16,403,454	\$ 14,425,690	\$ 14,303,019

See notes to consolidated financial statements

MERCANTILE BANKSHARES CORPORATION

STATEMENTS OF CONSOLIDATED INCOME

(Dollars in thousands, except per share data)	For the 9 months ended September 30,		For the 3 months ended September 30,	
	2005	2004	2005	2004
INTEREST INCOME				
Interest and fees on loans	\$ 508,135	\$ 399,417	\$ 185,714	\$ 138,117
Interest and dividends on investment securities:				
Taxable interest income	77,052	79,614	26,686	26,048
Tax-exempt interest income	2,348	2,500	839	803
Other investment income	1,753	1,157	526	472
Total interest and dividends on investment securities	81,153	83,271	28,051	27,323
Other interest income	1,546	1,089	760	449
Total interest income	590,834	483,777	214,525	165,889
INTEREST EXPENSE				
Interest on deposits	95,280	60,782	38,591	20,142
Interest on short-term borrowings	17,228	4,889	7,702	1,990
Interest on long-term debt	23,634	16,035	8,990	5,575
Total interest expense	136,142	81,706	55,283	27,707
NET INTEREST INCOME	454,692	402,071	159,242	138,182
Provision for loan losses	1,576	7,221	820	2,442
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	453,116	394,850	158,422	135,740
NONINTEREST INCOME				
Investment and wealth management	71,505	67,315	23,668	22,396
Service charges on deposit accounts	32,992	32,951	11,478	11,278
Mortgage banking-related fees	10,329	8,296	5,151	3,063
Investment securities gains and (losses)	458	534	(32)	(1)
Nonmarketable investments	13,683	7,421	4,190	2,767
Other income	52,042	41,684	18,619	14,418
Total noninterest income	181,009	158,201	63,074	53,921
NONINTEREST EXPENSES				
Salaries	148,482	138,173	51,748	48,696
Employee benefits	35,490	33,998	11,637	10,557
Net occupancy expense of bank premises	20,918	18,007	7,139	6,128
Furniture and equipment expenses	23,168	22,873	7,965	7,936
Communications and supplies	11,992	12,610	3,933	4,111
Other expenses	72,398	60,309	25,960	21,789
Total noninterest expenses	312,448	285,970	108,382	99,217
Income before income taxes	321,677	267,081	113,114	90,444
Applicable income taxes	120,221	98,286	42,158	33,659
NET INCOME	\$ 201,456	\$ 168,795	\$ 70,956	\$ 56,785
NET INCOME PER SHARE OF COMMON STOCK:				
Basic	\$ 2.50	\$ 2.13	\$ 0.87	\$ 0.72
Diluted	\$ 2.48	\$ 2.11	\$ 0.86	\$ 0.71
DIVIDENDS PAID PER COMMON SHARE	\$ 1.11	\$ 1.03	\$ 0.38	\$ 0.35

See notes to consolidated financial statements

MERCANTILE BANKSHARES CORPORATION

STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS EQUITY

For the 9 months ended September 30, 2005 and 2004

(Dollars in thousands, except per share data)	Total	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
BALANCE, DECEMBER 31, 2003	\$ 1,841,441	\$ 159,545	\$ 548,664	\$ 1,110,748	\$ 22,484
Net income	168,795			168,795	
Unrealized losses on securities available-for-sale, net of reclassification adjustment, net of taxes	(16,394)				(16,394)
Comprehensive income	152,401				
Cash dividends paid:					
Common stock (\$1.03 per share)	(81,601)			(81,601)	
Issuance of 91,006 shares for dividend reinvestment and stock purchase plan	3,981	182	3,799		
Issuance of 18,418 shares for employee stock purchase dividend reinvestment plan	822	37	785		
Issuance of 244,698 shares for employee stock option plan	4,434	490	3,944		
Directors' deferred compensation plan:					
Transfer opening balance	6,406		6,406		
Contribution	404		404		
Dividend			109	(109)	
Restricted stock awards:					
Issuance of 25,483 shares	1,169	51	1,118		
Deferred compensation	(1,385)			(1,385)	
Amortization	1,591			1,591	
Purchase of 1,000,000 shares under stock repurchase plan	(44,110)	(2,000)	(42,110)		
Vested stock options	1,892		1,892		
BALANCE, SEPTEMBER 30, 2004	\$ 1,887,445	\$ 158,305	\$ 525,011	\$ 1,198,039	\$ 6,090
BALANCE, DECEMBER 31, 2004	\$ 1,917,683	\$ 158,601	\$ 530,705	\$ 1,231,102	\$ (2,725)
Net income	201,456			201,456	
Unrealized losses on securities available-for-sale, net of reclassification adjustment, net of taxes	(22,302)				(22,302)
Comprehensive income	179,154				
Cash dividends paid:					
Common stock (\$1.11 per share)	(89,017)			(89,017)	
Issuance of 2,444,408 shares for bank acquisition	124,335	4,889	119,446		
Fair value of 138,764 converted options related to employee stock option plan of acquired bank	5,182		5,182		
Issuance of 82,444 shares for dividend reinvestment and stock purchase plan	4,098	165	3,933		

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Issuance of 17,550 shares for employee stock purchase dividend reinvestment plan	873	35	838
Issuance of 181,808 shares for employee stock option plan	3,664	364	3,300
Directors' deferred compensation plan:			
Issuance of 10,182 shares	439	19	420
Contribution	520		520
Dividend			195 (195)
Restricted stock awards:			
Issuance of 41,823 shares	2,211	84	2,127
Deferred compensation	(2,242)		(2,242)
Amortization	1,972		